

The International Accounting Standards Board met in London on 15 – 18 November, when it discussed:

- Fair value measurement
- Consolidation - Control
- Technical Corrections
- Accounting standards for small and medium-sized entities
- Performance reporting
- Short-term convergence: segment Reporting
- Short-term convergence: borrowing costs
- Short-term convergence: earnings per share
- Business Combinations II
- Update on IFRIC activities
- Insurance contracts

## Fair value measurement

The Board held an education session on the draft fair value measurement standard developed by the Financial Accounting Standards Board (FASB). This session was led by Linda MacDonald, the FASB's project manager. The materials for the presentation are in the observer notes for this meeting at: <http://www.iasb.org/meetings/nov2005.a.sp>. No decisions were made.

## Consolidation - Control

The board discussed disclosure with regard to the judgement exercised in deciding whether one entity controls another.

The consolidation model being developed is based on a control principle. The proposed standard will avoid bright-line tests but will provide a principle and guidance that will help an entity decide whether it controls another. Some decisions will require the exercise of more judgement than others, such as when control is as a result of de facto rather than legal power over voting rights. Disclosures are important to allow users to compare entities.

The Board discussed two types of disclosure about an investment in an entity when deciding whether the entity is controlled requires the exercise of

judgement. The first is disclosure of information that would help an investor understand the decision to consolidate an entity. The second type of disclosure is information that would help an investor assess the impact of that decision. The staff noted that symmetry in the disclosure requirements about the control decision is important. That is to say, if the decision requires the exercise of judgement then users may need information to assess the impact of that decision whether the investee is consolidated or not. The information would also be disclosed in each reporting period, not just the period the entity is consolidated for the first time.

The Board generally agreed with the approach the staff are taking, but noted that it is difficult to assess the relative importance of disclosure until it has a clearer picture of the control model itself.

## Technical Corrections

The Board discussed the issues raised by the comment letters responding to the draft Technical Correction policy and Draft Technical Correction 1 (DTC1).

In respect of the draft policy the board decided that a separate policy on Technical Corrections is not needed. The Board noted that the Due Process Handbook contains provisions that are adequate to deal with amendments that were the subject of the draft policy. That is, if a proposed amendment is exceptionally urgent, the document is short, and the Board believes that there is likely to be broad consensus on the topic, the Board may adopt a comment period on the exposure draft of not less than 30 days.

In respect of the proposed amendment to IAS 21 *Net Investment in a Foreign Operation* (formerly Draft Technical Correction 1), the Board decided that:

- the wording in paragraph 15 of IAS 21 should remain unchanged.
- a new first sentence should be added to proposed paragraph 15A specifying that the example applies to a monetary item between two subsidiaries.

- paragraphs 15B and BC7 of the proposed amendment should not be adopted.
- the amendment to paragraph 33 should be adopted as proposed.
- the proposed amendment to IAS 28 paragraph 29 should not be adopted.
- the amendment should be effective for annual reports commencing on or after 1 January 2006 with earlier application encouraged.

## Accounting standards for small and medium-sized entities (SMEs)

The Board discussed possible simplifications for SMEs of recognition and measurement principles in IFRSs. The staff presented recommendations for simplifications based on:

- recommendations of the IASB's Working Group on SMEs;
- responses to the April 2005 Staff Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities;
- views expressed at the World Standard-Setters meeting hosted by the IASB in September 2005, and
- views expressed by participants in the October 2005 round-table meetings with the Board.

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The Board first discussed whether it should defer consideration of recognition and measurement simplifications pending completion of a draft exposure draft that reflects simplifications other than for recognition and measurement.

The Board asked the staff to review all IFRSs with a view to identifying the main principles, scope exceptions and implementation guidance not generally relevant to SMEs. The resulting principles would be reorganised topically. The draft will contain only those options that SMEs are most likely to choose, with a cross reference to full IFRSs for other options. The staff will use this approach to prepare a rough draft of a major section of an exposure draft, for consideration by the Board in January 2006.

The Board also asked the staff to further explore specific recognition and measurement simplifications while the other aspects of the exposure draft are being developed.

The Board then considered the staff recommendations on some possible recognition and measurement simplifications and reached the following decisions:

- **Measuring the cost of inventories under IAS 2 *Inventories*.** No major simplifications needed for SMEs.
- **The percentage-of-completion of method for contracts in IAS 11 *Construction Contracts* and for service revenue in IAS 18 *Revenue*.** No major simplifications needed for SMEs.
- **Recognition of deferred income taxes under IAS 12 *Income Taxes*.** The staff should explore this further with preparers and users of SME financial statements, and bring a recommendation to the Board at a future meeting.
- **Lease accounting under IAS 17 *Leases*.** SMEs should not treat all leases as operating leases, with added disclosures. The Board asked the staff to explore further the following two approaches, and bring a recommendation to the Board at a future meeting:
  - Treat all leases as finance leases with measurement simplifications.
  - Retain the IAS 17 operating and finance lease split but with measurement simplifications.
- **Measurement of defined benefit pension or other post-employment benefit liabilities under IAS 19 *Employee Benefits*.** SMEs should not use defined contribution plan accounting to account for defined benefit plans. The Board asked the staff to discuss with actuaries other simplifications including (a) less frequent actuarial valuations and (b) simplified recognition of actuarial gains and losses.
- **Consolidation of subsidiaries under IAS 27 *Consolidated and Separate Financial Statements*.** SMEs should not be exempted from preparing consolidated financial statements.
- **The equity method of accounting under IAS 28 *Investments in Associates* and under IAS 31 *Interests in Joint Ventures*.** SMEs should account for investments in associates either using the equity method or carrying the investments at fair value with gains and losses recognised in profit or loss. SMEs should measure interests in joint ventures using either method permitted in IAS 31 (equity method or proportionate consolidation).

- **IAS 36 impairment of goodwill and intangible assets.** An indicator approach (but not an amortisation approach) should be explored for recognising impairment of goodwill and other indefinite-lived intangibles. The indicator approach would replace the annual impairment calculation.

- **IAS 36 other impairment issues.** The staff should explore further the following indicator approach to impairment for all non-financial assets other than goodwill and indefinite-life intangible assets:

- Retain the key principle that assets should not be carried at more than recoverable amount.
- Simplify recognition using impairment indicators based on those in IAS 36 paragraph 12.
- Measure the impairment at fair value rather than also require a value-in-use calculation.

The staff plan to bring more recommendations to the Board at its December meeting.

## Performance reporting

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The Board discussed its tentative decision to require a single statement of recognised income and expense. The Board expressed its view that a single statement presenting all income and expenses is the conceptually correct presentation. However, it decided that the Exposure Draft of Proposed Amendments to IAS 1 *Presentation of Financial Statements* would allow the presentation of income and expenses in a single statement or in two statements (an income statement and a statement of recognised income and expense that would begin with profit or loss for the period). The Basis for Conclusions to the Exposure Draft will make clear the Board's preference for a single statement. All other tentative decisions of the Board in relation to Segment A of the project will be included in the Exposure Draft.

## Short-term convergence: segment reporting

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The Board discussed two issues raised by a Board member on the terminology in the ballot draft of the proposed IFRS on segment reporting.

### Title of the proposed IFRS

The Board decided to change the title of the proposed IFRS from 'Segments' to 'Operating Segments' and to use the phrase 'operating segment' consistently throughout the standard.

### Core principles

The Board confirmed that in this IFRS the section previously titled 'objective' should instead set out the core principles of the standard.

## Short-term convergence: borrowing costs

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At its meeting in October, the Board asked the staff to prepare a paper setting out the changes that would be required to achieve convergence on all aspects of the two current Standards, IAS 23 *Borrowing Costs* and SFAS 34 *Capitalization of Interest Cost*.

After considering the staff analysis the Board decided that in the short-term convergence project it would not address differences other than the issue of capitalising borrowing costs versus immediately recognising them as an expense. Therefore, the scope of the project is limited to the elimination of the option of immediate recognition of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as an expense, in accordance with the Board's previous decision.

## Short-term convergence: earnings per share

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In September 2005 the Board considered a change to the treasury stock method that was about to be proposed by the FASB in an Exposure Draft on earnings per share. The treasury stock method is used in computing the effect of options, warrants and their equivalents on diluted earnings per share. The Board decided that it would debate the FASB proposal during the comment period on the FASB Exposure Draft, and consider whether to expose a similar proposed amendment to IAS 33 *Earnings per Share*.

The FASB published its Exposure Draft of an amendment to SFAS 128 *Earnings per Share* on 30 September 2005, with a comment period ending on 30 November 2005.

The Board decided to publish an Exposure Draft of proposed amendments to IAS 33 as soon as possible to change the application of the treasury stock method to options, warrants and their equivalents. The amendment would change the definition of assumed proceeds referred to in paragraph 45 to include the carrying amount of any liability that would be extinguished upon exercise or share settlement of the instruments. This is the same change as that proposed by the FASB.

The Board confirmed its previous conclusion that the amended treasury stock method should be extended to convertible instruments. However, the Board will consider at a future meeting whether the amended treasury stock method should be extended to all convertible instruments or only convertible debt. In addition, the Board will consider whether to include in its proposal an amendment to IAS 33 with respect to treasury shares held by a partly owned subsidiary.

## Business Combinations II

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The staff led a debriefing on the Business Combinations round-tables held in Norwalk on 27 October and London on 9 November.

### Organisation and structure

About 60 people attended the five sessions. In Norwalk, the 30 participants were all US GAAP constituents. In London, about 25 participants were from the UK and continental Europe, four from the US and one from Australia.

The staff noted that the sessions were productive. They noted, however, that future round-tables would be held after the comment letter period has closed. This would help the staff to focus the discussions on those areas in which it would be helpful to get a better understanding of the concerns being expressed by constituents. The staff also noted that the expectations some participants had about the round-tables did not align with the expectations the staff and Board had for the sessions. The staff will find ways to address this.

## Initial assessment of the views expressed at the round-tables

The staff provided an overview of the discussions held in the sessions, highlighting differences in views between the Norwalk and London participants. The staff emphasised that the analysis was an early assessment.

The staff are analysing the written comments received. To date, 246 submissions have been placed on the IASB and FASB Websites. A high level analysis is being undertaken to assist with the technical planning sessions being held by the boards in December. A more detailed analysis will be presented to the boards in January, to assist with the planning of the redeliberation process.

## Update on IFRIC activities

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The staff reported on the November meeting of the IFRIC, details of which are published in IFRIC Update.

The Board noted that one of the projects under review by the IFRIC, D17 Group and Treasury Share Transactions exemplified once again the difficulties encountered in relation to the separate financial statements of subsidiaries or parents.

The IFRIC had been asked to resolve a conflict between IAS 34 Interim Financial Reporting and the requirements preventing reversal of certain impairments in IAS 36 Impairment of Assets and IAS 39 Financial Instruments: Recognition and Measurement. The staff asked the Board whether it wished to amend IAS 34 or leave it to the IFRIC to develop an Interpretation. Board members did not favour taking on a Board project to amend IAS 34.

Earlier in the year the Board had approved a near final text of an Interpretation Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. A late amendment had been found to be necessary in order to align the consensus more closely with IAS 29. The Board approved the amendment.

## Insurance contracts

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The Board held an education session to receive briefings on characteristics of:

- reinsurance contracts
- insurance-linked securities, such as catastrophe bonds.

The session was led by representatives of Swiss Re and XL Capital on behalf of the reinsurance company members of the Insurance Working Group which also include Munich Re and GE Insurance Solutions. The presentation is available at <http://www.iasb.org/meetings/nov2005.asp>.

No decisions were made.

At its meeting in December, the Board expects:

- to hold an education session on participation features.
- to discuss continuation, cancellation and renewals options in insurance contracts, and
- to begin its discussion of possible accounting models for life insurance.

**Meeting dates: 2005**

The Board will next meet in public session on the following dates. Meetings take place in London, UK, unless otherwise noted.

**2005**

12—16 December

**2006**

23—27 January

20—24 February

27—31 March

24—28 April (joint with FASB)

22—26 May

† Includes a meeting with the Standards Advisory Council